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THE ESTABLISHMENT OF THE GOLD EXCHANGE STANDARD IN THE PHILIPPINES.[1]

ON March 2, 1903, the act commonly known as the Philippine Coinage Act, "to establish a standard of value and provide for a coinage system in the Philippine Islands," became law. It was, in its essentials, the embodiment of the plan recommended to Congress by the Taft Philippine Commission in its First Annual Report in 1900, and consistently urged by that body during the two succeeding years. The plan originally proposed by the Commission had later received the support of Mr. Charles A. Conant, who was sent to the Islands in 1901 by the War Department to study the currency situation and assist the Commission in working out a plan of currency reform. The details of the plan adopted by Congress were largely worked out by Mr. Conant. The Commission later received valuable assistance from Professor J. W. Jenks. In August, 1903, the writer came to the Islands to assist the Commission in an advisory capacity in the work of establishing the new currency.

The principal provisions of the Philippine Coinage Act were as follows:—

(1) The establishment of a gold standard with a theoretical gold peso (like the theoretical gold yen of Japan), consisting of twelve and nine-tenths grains of gold, nine-tenths fine, as the unit of value.

(2) The coinage of a silver peso containing four hundred

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[1] Detailed information concerning the operations of the Philippine government with reference to the new currency during the fiscal year ending June 30, 1904, and for several months thereafter, will be found in the Third Annual Report of the Secretary of Finance and Justice and the First Annual Report of the Chief of the Division of the Currency, both of which are published in the Fifth Annual Report of the Philippine Commission.

and sixteen grains of silver, nine-tenths fine, and of subsidiary coins of proportionate weights[1] and the same fineness, the peso to represent the above-mentioned gold unit of value, or, in other words, to be equal in value to exactly fifty cents of United States money. Minor coins, consisting of a five-centavo nickel piece and a one-centavo and a half-centavo copper piece, had previously been provided for.

(3) The issuance of silver certificates, similar to the gold and silver certificates of the United States, against which silver pesos of an equal value were to be held in reserve.

(4) The establishment of a gold reserve for the maintenance of the parity and for providing funds for the new initial purchases of silver bullion required for the coinage. To this end the act authorized the issuance by the Philippine government of temporary certificates of indebtedness to the amount of ten million dollars, paying 4 per cent. interest, and redeemable in gold coin of the United States at the end of one year.

(5) Gold coins of the United States and the new Philippine silver pesos were made unlimited legal tender for future obligations, "unless otherwise specifically provided by contract." Debts contracted prior to the thirty-first day of December, 1903, were made payable in the legal tender currency existing at the time of the making of the contracts, unless otherwise specifically provided. The new subsidiary coins were made legal tender to the amount of ten pesos. Section 13 of the act removed the legal tender quality, after December 31, 1903, from all other kinds of money circulating in the Islands.

These are the essential points of the currency scheme as laid down by Congress. The details of the plan were to be worked out by the Philippine government.

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[1] The ten and twenty centavo pieces contain half a grain less to the peso than the peso piece.

Immediately upon the passage of the act, arrangements were made through the Bureau of Insular Affairs at Washington for the issue and sale of the certificates of indebtedness. Three million dollars of these certificates were sold in March, and a second three million in August. The facts that the certificates were placed upon the market at favorable times, and that the Secretary of the Treasury agreed to accept them as security for the deposit of government funds in national banks, resulted in their being taken up at very favorable rates. The premiums realized, together with the interest obtained upon the proceeds while they were deposited in New York, actually yielded the government a net income on the transaction. To quote the words of Vice-Governor Henry C. Ide, who is largely responsible for the success of the new currency scheme, "These two loans are probably unique in the history of government loans, in that the government has actually made a profit out of its debts." On May 1, 1904, the first series of certificates of indebtedness was renewed for a year, at rates somewhat less favorable than those at which it was originally floated, and on September 1 the second series was renewed under similar conditions. The Commission has declared its intention to pay off one series in May of the present year.

The new Philippine coins began to arrive in Manila from the United States mints in the fore part of June, 1903, and were first placed in circulation on July 23 by means of deposits in certain Manila banks, and of payments for salaries and other government obligations. The parity of the new coins was maintained at first through their redemption on demand at the Philippine Treasury, in United States money, at the rate of one dollar United States currency for two pesos Philippine currency.

On October 10, 1903, the "Philippine Gold Standard Act" was passed by the Commission. It has previously been noted that the Philippine Coinage Act of Congress left the working out of the details of the new currency system entirely to the discretion of the Philippine Commission. It was to fill in these details and to establish the proper administrative machinery for the inauguration and maintenance of the new system that the Philippine Gold Standard Act was passed. This act placed the new currency upon what is commonly known as the "Gold Exchange Standard." The principal provisions of the act may be briefly summarized as follows:—

(1) The establishment in the Insular Treasury of a separate and trust fund, to be known as the "Gold Standard Fund," this fund to be composed of all the proceeds of the certificates of indebtedness previously referred to, of all seigniorage profits realized in the coinage of the new currency, of all profits from the sale of exchange, and of "all other receipts in the Insular Treasury inuring to the Insular Government in the exercise of its function of furnishing a convenient currency for the Islands." The fund must be used exclusively for the maintenance of the parity of the new currency and the expenses incident thereto, including the purchase of bullion for new coinage, its transportation, mintage, etc. The law provides that part of the fund shall be held in Manila and part in New York.

(2) "For the purpose of facilitating the more efficient discharge of the functions of the Insular Government with respect to the circulation of the currency . . . and for the purpose of maintaining the parity" there was created in the Bureau of the Insular Treasury a division known as the "Division of the Currency," presided over by an officer known as the "Chief of the Division of the Currency."[1]

(3) For the maintenance of the parity three forms of

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[1] Upon the passing of the Philippine Gold Standard Act, the writer was appointed to the position of the Chief of the Division of the Currency, which he now holds.

redemption were provided in the law, the principal one being mandatory on the part of the government, and the other two incidental and optional: (*a*) The Insular Treasurer was authorized and directed to sell on demand, for Philippine or United States currency, drafts on the Gold Standard Fund in New York, charging for the same a premium of three-fourths of 1 per cent. for demand drafts and of 1⅛ per cent. for telegraphic transfers. The depositary of the Gold Standard Fund in New York was likewise directed to sell exchange on the Gold Standard Fund in Manila, charging therefor the same premium rates.[1] (*b*) On the approval of the Secretary of Finance and Justice the Insular Treasurer was authorized to exchange United States paper currency for Philippine currency and Philippine currency for United States paper currency, at the rate of two pesos Philippine currency for one dollar United States currency. (*c*) On the approval of the Secretary of Finance and Justice the Insular Treasurer was authorized to exchange for Philippine currency United States gold coin or gold bars, charging for the same a premium sufficient to cover the expenses, at commercial rates, of transporting United States gold coin from New York to Manila.

All money presented to the Insular Treasury for redemption or for the purchase of exchange on New York, pursuant to the above provisions of law, must be immediately withdrawn from circulation and not paid out again except in response to similar counter-demands, or for the purchase of bullion to provide an increase in coinage, or to meet certain minor expenses incidental to the introduction and maintenance of the currency.

Any considerable circulation of gold coin in the Philippines seems at present to be impossible. From May, 1898, to September 15, 1901, over ten million dollars in United States gold coin were shipped to the Islands by the military authorities. None, however, is to be seen at this day in trade channels. It has been in part melted down for ornaments, in part hoarded by the natives, and in part shipped to China and other neighboring countries for similar purposes.

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[1] On November 2, 1904, the rates in New York for drafts on the Gold Standard Fund in the Philippines were reduced to three-fourths of 1 per cent. for telegraphic transfers and three-eighths of 1 per cent. for demand drafts.

The object of the sale of drafts above mentioned is to provide a means for the maintenance of the parity, and, to that end, of automatically adjusting the currency supply to the demands of trade without the necessity of introducing gold coins into circulation; in other words, to create "a gold standard without a gold currency." While the plan is not a new one, it has probably never been attempted elsewhere on as large a scale as at present in the Philippines.[1] The new Philippine currency is capable of performing all the functions of a gold currency except that of being shipped to and from foreign countries in settlement of trade balances. This function of money, or of bullion which is promptly exchangeable for money on demand, is not only important because it is the means by which foreign trade balances are settled when they become unusually heavy in one direction or the other, but it is still more important because it is through the exercise of this function that the currency supply is adjusted to the currency demand, and that its parity is maintained through a reduction in the circulation in times of relative redundancy and its increase in times of relative scarcity.

It is a familiar principle that, when the balance of trade becomes strongly "unfavorable" in gold standard countries, exchange rates advance to the gold export point and gold is exported, and, on the other hand, when the balance of trade becomes strongly "favorable," exchange rates decline to the gold import point and gold is imported. All the expense of shipping the gold, including those of freight, insurance, interest, and abrasion, are borne by the shipper. Under the gold exchange standard, as it exists in the Philippines, the premiums charged by the government in Manila for exchange on New York, and in New York for exchange on Manila, are fixed so as to represent as nearly as possible the actual commercial cost of shipping gold bars between the two cities.[1] When, therefore, exchange rates in Manila on New York reach the gold export point, the actual gold is not exported, as in the United States and other strictly gold standard countries, but the government gives the would-be gold exporter, in exchange for his Philippine currency in Manila, the gold credit in New York, and charges him for the transfer simply the amount the actual exportation of gold bars to New York would have cost him, were he to have exported gold. When, on the other hand, exchange rates in New York on Manila reach the point at which it would be profitable to export United States currency from New York to the Philippines, the authorized agent of the Philippine government in New York gives the would-be currency exporter in New York, in exchange for United States currency paid into the Gold Standard Fund there, Philippine currency laid down in Manila, and charges him in the same manner a premium sufficient to cover the expenses the actual shipment of the currency would otherwise have cost him.

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[1] The gold exchange standard was advocated for India by Mr. A. M. Lindsay of the Bank of Bengal in 1898, and is well explained by him in his testimony before the Indian Currency Committee (Part I., sec. 3275 *et seq.*, of the Committee's Report), and in his pamphlet entitled *Ricardo's Exchange Remedy* (London, 1892).

Another method of settling trade balances is rendered possible under the law, in case exchange rates are unfavorable for settling balances with other countries by means of New York exchange, through the provision of the law authorizing the Treasurer of the Philippine Islands on the approval of the Secretary of Finance and Justice, to sell United States gold coin or gold bars at a premium not greater than sufficient to cover the expenses of shipping gold coin from New York to Manila. A small premium on gold coin and gold bars is necessary in the Philippines to protect the government from the trouble and expense of shipping gold from the United States to Manila, only in turn to have it melted down, hoarded, or shipped to China and other neighboring countries at the slight expense involved in its shipment to those places from Manila.

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[1] As noted on page 589 the rate charged by the Philippine government's agent in New York for exchange on the Philippines was reduced in November, 1904, below the gold import point for the Philippines. This reduction in rate was to prevent the settlement of trade balances by the shipment of United States paper currency, which can be imported considerably cheaper than could gold bars.

The exchange by the Insular Treasurer of Philippine currency for the various kinds of United States paper currency, and of the various kinds of United States paper currency for Philippine currency, which the law authorizes, on the approval of the Secretary of Finance and Justice, finds its *raison d'être* in the considerable amounts of United States currency still circulating in the Islands, the existence of many past contracts payable in United States currency, the absence of any Philippine currency notes of large denominations,[1] and the convenience of persons travelling to and from the home land.

United States silver, nickel, and copper coins are not recognized in the Philippine Gold Standard Act. Their circulation in the Islands has been found undesirable because of their liability to be counterfeited, and of the difficulty of readily distinguishing them from similar Philippine coins having but half the value.

A serious problem which early presented itself to the Philippine government was that of the removal of the old currency from circulation. This currency, officially known as "local currency," and popularly known as "Mex.," consisted of: (*a*) an unknown quantity of Mexican pesos;

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[1] The Act of Congress approved February 6, 1905, authorizes the issuance of Philippine silver certificates in denominations as high as 500 pesos. The ten-peso certificate is the largest denomination as yet in circulation.

(*b*) a quantity of Spanish-Filipino half-pesos and small silver coins, roughly estimated at about ten million pesos, which contained about 12 per cent. less fine silver to the peso than the Mexican peso, although circulating at a parity with it; (*c*) about five and a half million Spanish-Filipino pesos of the coinage of 1897, commonly known as "Alfonsinos," which were imported from Spain just prior to the American occupation, and which contained about 8 per cent. less fine silver than the Mexican peso, although passing current at the same value; (*d*) a miscellaneous assortment of coins, consisting of old Spanish dollars, many of them dating back into the eighteenth century, Chinese subsidiary coins, and copper coins from nearly every country in the Orient. Here was a circulating medium the great bulk of which had existed in the Islands for generations. It had in its favor all the prestige and prejudice which generations of use can create among an Oriental people. The problem of displacing it by a new and unfamiliar currency would, under any circumstances, have been a difficult one. In this case, however, it was rendered especially so by the fact that the new currency was the dearer one, and the old, being the cheaper, had behind it the tremendous force of self-interest as exemplified in Gresham's familiar law.

The Spanish-Filipino money was, in a peculiar sense, the money of the country, and the Philippine government felt itself morally bound to make careful provision for its redemption. Towards the Mexican currency and the other foreign coins in circulation in the Islands it did not feel the same degree of moral obligation. The importation of these coins had been prohibited from 1877 to August, 1898, and a goodly portion of those in circulation had been illicitly smuggled into the Islands with the connivance of Spanish customs officials. The Mexican dollar, moreover, was an important article of merchandise throughout the

Orient, carried with it its full value in silver bullion, and was thought to be well able to take care of itself.

The bankers of Manila, and a large number of the more prominent business men of the Islands, strongly urged upon the government the redemption of all the old local currency at par in the new Philippine currency. Many arguments were advanced in favor of this plan, the strongest of which were: first, that it would greatly expedite the transition to the new currency and materially reduce the unsettlement of business, which always characterizes such a transition period; and, second, that to the great mass of natives who bought and sold only native produce, and who seldom, if ever, came into contact with gold prices, the new peso would for a long time to come have no more purchasing power than the old, and that to compel these holders of the old currency to exchange it for the new at a discount would involve them in an actual loss.

Despite the force of these arguments there seemed to be insuperable obstacles to the plan of redeeming the old currency at par. The amount of this currency in the Islands was unknown, and estimates varied widely. The redemption of all the local currency at par would have meant the redemption of Mexican pesos above their bullion value and above the values at which they would otherwise have circulated. Subsequent fluctuations of silver have since shown that the prices paid for Mexican dollars would have varied from about 2 to 16 per cent. above their value as bullion. Estimates made at the time showed that it would be necessary for the government to redeem the Spanish-Filipino money at a discount of about 15 per cent. if it were to avoid a net loss in the recoinage of this money into the new currency, to say nothing of realizing any seigniorage profits. It has since proven that the net loss, inclusive of seigniorage, which the government would have suffered by redeeming the Spanish-Filipino currency at par, would have varied from something like 16 to 30 per cent., according to the variations in the market price of silver. Premiums like those above mentioned on Mexican currency would certainly have led to the illicit smuggling of large quantities of this money into the Islands. The Philippines possess an enormous unprotected coast line, their distance from neighboring countries is small, most of these countries are saturated with Mexican dollars, and the Chinaman is an adept smuggler. The large expense which the redemption of local currency at par would have imposed upon the government, moreover, would have had to be borne by the entire people in the form of increased taxes, while the profits would have been realized not so much by the masses as by the Chinese smugglers and by the wealthier classes of the population in whose hands the bulk of the local currency was held.

The argument advanced, that the Philippine government was under a moral obligation to redeem the old currency at par, did not carry much weight. Ever since the American occupation the Mexican dollar, together with the various kinds of Spanish-Filipino money and other money circulating in the Islands, had fluctuated with the market price of the Mexican dollar in the Oriental markets, and closely in harmony with the fluctuations of the London price of silver. It was difficult to see why the Philippine government was morally bound to redeem a currency at prices varying from 4 to 18 per cent. higher than those at which it had for some time circulated, and would have continued to circulate, had the government not taken measures for its withdrawal.

After a careful study of the situation and consultation with the authorities at Washington, it was unanimously decided by the Commission that the circumstances did not justify the enormous risk and expense which the redemption of the old currency at par would make necessary.

Fortunately for the introduction of the new currency, although unfortunately in every other way for the Islands, the Philippine rice crop for 1903 was almost a complete failure. Over thirty million pesos worth of rice was imported into the Islands during the year, and, largely in consequence of this fact, the balance of trade was strongly against the Islands, and there was during the year a net commercial exportation of over fifteen million Mexican dollars. This outward movement of Mexican currency was, no doubt, somewhat further stimulated by the anticipated and actual introduction of the new currency and the government's declared future policy of discriminating against the old currency. The Philippine Coinage Act of Congress had early in the year declared that local currency would cease to be legal tender in the Islands after December 31, 1903, and had authorized the Philippine government to discontinue receiving it in payment of government dues at any time after that date.

The new Philippine coins began to arrive in Manila from the United States mints in the fore part of June, 1903, and were first placed in circulation, as previously stated, during the latter part of July. Simultaneously with the introduction of the first new coins the Civil Governor issued an order authorizing the Insular Treasurer to exchange the new Philippine currency, at the official rate as fixed from time to time, for local currency with the various provincial treasurers, the cost of transportation to be chargeable to the Insular Government. The order further declared that "all obligations or contracts for labor or materials hereafter executed shall be made payable only in Philippine currency or the legal equivalent thereof in United States currency, at the option of the Government, and all such obligations or contracts now existing, which are payable only in Mexican or local currency, will be readjusted to the new basis as soon as practicable."

The reception given to the new currency by the public was at first not a hearty one. The new peso was no larger than the Mexican peso, upon the basis of which prices had been adjusted for generations; and the Chinese and natives could not see why it should be worth any more. In fact, for some time many of them, under the influence of custom, actually preferred the old pesos with which they were familiar to the new ones, even at the same rate.

During the period from August 1, 1903, until the end of the calendar year, a Philippine peso could be exchanged at the banks or the Chinese exchange shops of Manila at anywhere from one peso and four centavos to one peso and eighteen centavos, local currency. The great majority of merchants and shopkeepers, however, accepted the new pesos simply as the equivalent of the old. It was but natural, therefore, that the old money should be preferred to the new by all persons who had money to spend in the Islands. *It cost less and went as far.* Being the cheaper money, it tended quickly to drive the new money out of circulation on the principle of Gresham's familiar law. Persons receiving the new money from the government promptly exchanged it at the banks and the shops of the Chinese money-changers for the old currency, while they, in turn, presented the new currency to the government for United States currency or the purchase of New York drafts to be shipped out of the Islands in settlement of the heavy unfavorable trade balance existing at the time. Later, when the balance of trade changed, foreign credits thus set up were drawn upon to purchase Mexican currency for importation, thereby creating a system closely akin to that of the "endless chain." Almost as rapidly as the new currency was paid out during August and September it came back to the government through these channels.

The difficulty was partially remedied in Manila by an ordinance passed by the Municipal Board, on the recommendation of the Chief of the Division of the Currency, requiring all merchants in the city to post in their places of business placards stating in the English, Spanish, and Tagalog languages in what currency their prices were fixed, and at what rates they received the various other currencies circulating in Manila. Over seven thousand of these placards, with changeable rate slips attached, were distributed, free of charge, in the city. The result was favorable. The people soon learned at what stores they could get the full value of their Philippine currency. A healthy competition began for the Philippine currency trade. Higgling over exchange rates was reduced, and it was not long before nearly all of the better stores and shops of the city, and many of the poorer ones, were receiving Philippine currency at practically the bank's rates, with the result that the introduction of the new currency in Manila was materially accelerated.

The public and the local newspapers, for some time prior to the end of the year, held the opinion that the death knell of local currency would be sounded when it ceased to be legal tender on December 31. This popular opinion, however, as was to be expected, was soon to receive a rude shock. From the beginning of the calendar year 1903 up to November each month had witnessed a heavy net exportation of local currency from the Islands. In October the net exportations amounted to a million and a half pesos. In November, however, the tide began to turn in the other direction, and between November 1 and February 1 there was a total commercial importation of local currency into the Islands of over a million and a quarter pesos and a net importation of over six hundred thousand pesos. Nearly eight hundred thousand pesos of the new currency were withdrawn from circulation during December alone through the sale of exchange by the government on the Gold Standard Fund in New York, while the month of December exhibited an actual decrease in the Philippine currency circulation of the Islands of over eighty-two thousand pesos.

The situation at the end of the year was anything but encouraging. The transition period in any currency reform is a period of unsettled business conditions. The Philippines were no exception to this rule, although the policy later adopted by the government, it will soon be shown, reduced the disturbance to a minimum. Business men were anxious to have the transition effected as soon as possible. They were heartily sick of continual exchange fluctuations, of a dual currency, and of the generally unsettled business conditions. The prospect at the end of the year for an indefinite prolongment of these conditions was not a pleasant one. The commercial public, however, dreaded any positive action on the part of the government to put an end to these conditions, much as a patient dreads a surgical operation.

The Philippine Commission, after listening to the arguments of the various commercial interests in the Islands in a number of public sessions,—arguments which were in the main directed towards inducing the Commission to redeem all local currency in the Islands at par, a course many months before definitely decided against,—came to the opinion that the business interests of the Islands would, in the long run, suffer less if some positive action were taken by the government to force the old currency out of circulation with certainty, and a reasonable degree of promptness, than if the existing unsettled conditions were permitted to dawdle along indefinitely. The public, it was reasoned, would continue to use the old currency as long as it was the cheaper one, and could be used at a profit in preference to the new; and the prospects were that this condition of affairs would exist for a long time unless the government should adopt some positive measures to bring it to an end. A few business concerns could not well transfer their business to the new currency basis unless their competitors would do the same,—in fact, efforts in this direction on the part of several firms had signally failed,—and it was felt that the government alone was in a position to force them all promptly into line.

An act was passed by the Commission December 28, "providing that the salaries of provincial and municipal officers and employees shall be fixed in Philippine currency at the same amounts now allowed by law to be fixed in Mexican currency,[1] and that the assessment, imposition, and collection of taxes, public dues, and impositions now authorized and made payable in Mexican currency shall be made payable in Philippine currency on the basis of one Philippine peso for one Mexican dollar, and that all compensation for insular or provincial officers and employees and all official fees and charges now made by law payable in Mexican currency shall be payable in Philippine currency, on the basis of one Philippine peso for one Mexican dollar" on and after the first of January, 1904.

On January 1 the civil governor issued an order discontinuing the receipt of Mexican currency by the government, and providing for the redemption of Spanish-Filipino currency by the Insular Treasurer and the various provincial treasurers until July 1, 1904, at such official rates as should be fixed from time to time by executive order. The order further directed that Spanish-Filipino currency should be receivable by the government in settlement of all government dues until October 1, after which date it was to cease to be so receivable, and was to be redeemable, at the option of the government, only at its bullion value.

Later in January an arrangement was made by the

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[1] The term "Mexican currency" as used in this act includes Spanish-Filipino currency as well as Mexican currency proper.

Insular Treasurer with the three Manila banks which act as depositaries of government funds, by which they agreed to withdraw from circulation as far as possible all Spanish-Filipino currency received over their counters, and to repay the government its local currency deposits solely in the form of Spanish-Filipino currency, as long as the latter should be available. Pursuant to this arrangement a resolution was passed by the Commission on January 28, to the effect that, as long as the Treasurer was able to continue this arrangement with the banks, the various provincial treasurers were authorized to "receive Mexican dollars in exchange for Philippine currency at the authorized rate of exchange between Spanish-Filipino coins and Philippine currency, and transmit the coins so received to the Insular Treasury." This measure was continued in effect until July 1, 1904, the date when local currency ceased to be redeemed by the government as money. The arrangement materially assisted the government in withdrawing the Spanish-Filipino coins from circulation, and afforded the public additional means of disposing of their Mexican currency.

On January 14 a law was passed prohibiting the further importation of local currency into the Islands, and on January 28 a supplementary bill was passed imposing an ad valorem tax on contracts or other instruments payable in local currency negotiated after September 30, 1904, and upon local currency bank deposits maintained after December 31, 1904, and exacting a special license tax of all merchants doing business in local currency after the latter date. Numerous exceptions were made in the law for the protection of persons having contracts previously made and payable in local currency, and of persons wishing to dispose of local currency by exportation, sale to the government, or other similar means. Bank deposits were exempted from the tax when maintained for the purpose of meeting local currency contracts made and properly registered prior to January 1, 1905. Careful provisions were made in the act to assure the equitable adjustment of previously made contracts calling for payment in local currency which should mature when that currency should no longer be available. The taxation provisions of the law did not begin to become operative until October 1, and the law did not come into full effect until January 1, 1905. The public were thus given from eight to eleven months "to set their houses in order."

Immediately upon the passage of the above act an announcement was prepared by the Chief of the Division of the Currency, explaining briefly the provisions of existing laws with reference to local currency, and urging the public to exchange their local currency for the new Philippine currency as rapidly as possible. This announcement was prepared in twenty-one different languages and dialects, and nearly a hundred thousand copies were posted throughout the Islands. It was also widely announced by *bandillo*, or "town criers." A supplementary announcement to the same effect was made in November, about one hundred and twenty thousand copies of which, in the various languages and dialects, were posted throughout the Islands.

On June 30, 1904, pursuant to the executive order previously referred to, the government discontinued the redemption of local currency as money, and on September 30 discontinued receiving it in payment of government dues. On September 29 an executive order was issued directing the Insular Treasurer and each provincial treasurer in the Philippine Islands to purchase Spanish-Filipino coins from October 1, 1904, until January 1, 1905, at their bullion value, said value to be determined from time to time by the Civil Governor. The order further declared that, for the purpose of facilitating "the substitution of Philippine currency for all forms of currency now circulating in the Philippine Islands, the provisions of this order for the redemption of Spanish-Filipino currency are hereby extended to Mexican currency, Chinese subsidiary silver coins, and all foreign copper coins now circulating in the Philippine Islands, all of which shall be redeemed at the same rates and upon the same conditions as those above provided for Spanish-Filipino money." The provisions of this order have been extended from time to time since January 1, and are still in force. Spanish-Filipino currency, although from 8 to 12 per cent. lighter than Mexican currency, had, prior to the time of the above order, always circulated at par with it. Shortly after the issuance of the order, however, as had been expected, the market values of the two kinds of currencies separated, that of the Mexican currency being thenceforth determined by its value for exportation, and that of the Spanish-Filipino currency by the government's official rate for its purchase as bullion.

Prior to October 1, 1904, contracts to the amount of about 7,500,000 pesos, local currency (exclusive of government accounts), were registered at the office of the Collector of Internal Revenue, and exempted from the payment of the local currency tax. Of this amount nearly 2,000,000 pesos represented bank deposits, and about 3,500,000 pesos insurance policies payable in local currency. The total number of exemptions issued was 684.

Contrary to the almost unanimous expectation of local bankers and business men, the law providing for the taxation of local currency transactions proved a remarkable success. The dates upon which the various taxes imposed by the law were to become effective were so far distant that the law had little immediate effect. The bulk of the Islands' business continued as before to be transacted in local currency. From January 28, the date of the passage of the local currency taxation act, until the latter part of

June, the value of the Mexican dollar in Manila, as measured by sterling exchange rates, was for over four-fifths of the time above the value of its silver content in London, and above the value of Hongkong currency. During the latter part of April, May, and the fore part of June, the differences in these values were marked, the local value varying during most of this period between 7 and 9 per cent. above bullion value, and about the same amount above sterling exchange rates in Hongkong. About the fore part of June, however, business men began in earnest to adjust their affairs to the law, and it was surprising to every one to see in how short a time the adjustment was accomplished, and with what comparatively little disturbance to business. There never was a better example of the adage, "to be forewarned is to be forearmed." From June 9 to June 15 sterling exchange rates in Manila declined nearly 5½ per cent.,—a variation great in itself, but not at all uncommon in silver standard countries,—whereas in Hongkong the decline during the same period was less than one-third of 1 per cent. The London price of silver for both dates was the same. This decline was the first sign of any important influence upon exchange rates exerted by the taxation measures which were soon to go into effect. Sterling exchange rates in Manila, nevertheless, continued above the rates in Hongkong until about the 2d of July. It was not until the 27th of June that the value of the Mexican dollar in Manila fell below the value of its silver content in London. From January to June the net commercial exportations of local currency from the Islands were but 171,000 pesos, in April and May they were but 2,100 pesos, in June 55,000 pesos. In July, however, they increased to 837,000 pesos, and for the remainder of the calendar year they amounted to over 5,000,000 pesos. About the middle of June the members of the Manila Chamber of Commerce passed resolutions in favor of transferring their businesses to a Philippine currency basis on the 1st of July, and the Chinese Chamber of Commerce shortly afterwards adopted similar resolutions. By the latter part of July the banks had practically discontinued making forward exchange contracts in local currency, and comparatively few ready transactions in that currency were then being made. Before August 1 it can safely be said the great bulk of the foreign exchange business of the Islands had been transferred to the new currency basis. Between August 31 and December 31 the total local currency current-account credit balances of the five Manila banks (exclusive of government balances) fell from 1,814,474 pesos to 729 pesos. By September 30, the date upon which the taxation of local currency transactions began to become effective, the greater part of the larger trade of the Islands was being carried on in Philippine currency, and the same was true of the better class of retail trade. The small transactions of the Chinese and native shops and of the markets still continued to be almost entirely in local currency.

With the beginning of the new year the Collector of Internal Revenue, in whose hands the administration of the local currency taxation law was placed, issued circulars to his deputies throughout the Islands, enjoining the rigid enforcement of the law. The circulation of local currency among the small tradespeople quickly ceased: thousands of natives and Chinese flocked to the Insular Treasury and the various provincial treasuries for the exchange of their old currency. The exchanges made by the government during December, January, and February, amounted to several millions of pesos, a large proportion of which was composed of subsidiary and minor coins, the denominations naturally the last to be presented for redemption.

On February 2 of the present year (1905) the Collector of Internal Revenue sent a circular letter to all the provincial treasurers in the Islands, inquiring to what extent local currency was being used in the business of the respective provinces, and to what extent it was being held for speculative purposes. Reports received from thirty-four provinces showed that in all but three provinces local currency had practically ceased to be used except to a small extent in a few of the more remote parts of the interior, and that almost none was being held for speculative purposes. Of the three provinces excepted, the estimated circulation in two of them was but 135,000 pesos, while for the third one, a remote province of little commercial importance, no estimate was made. The amounts of local currency at present being presented for redemption are very small, and it is only a matter of a short time before the petty amounts yet outstanding in the remote sections of the Islands will have been entirely withdrawn from circulation. Local currency is no longer a factor in the trade of the Islands. Only three persons have to this date been prosecuted for the infraction of the local currency taxation law, and all three cases were of minor importance.

An important question to be asked in connection with any currency reform is, What was its effect upon prices? Unfortunately, the absence of any carefully prepared price statistics in the Philippines renders a safe judgment upon this question with reference to the recent currency reform impossible. What evidence there is seems to show that the immediate tendency of the change was to give the new peso no higher purchasing power as regards retail prices and wages than the old, and thus to increase prices and wages, as measured in gold values, by the difference between the value of the new monetary unit and that of the old.[1] This tendency apparently did not apply to anything like the same extent in the case of wholesale prices, with reference to which competition was much keener. Under the

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[1] In this respect the experience of the Philippines seems to have been similar to the recent experience of Porto Rico under somewhat analogous conditions.

Mexican currency régime the purchasing power of the Mexican peso in local retail trade was not to any extent altered by fluctuations in the value of its fine silver content. A Mexican peso would ordinarily purchase as much in the local retail markets when its bullion value was forty cents, United States currency, as when it was forty-five or fifty cents. It has previously been noted that at the beginning the new peso was generally accepted by local tradesmen only at the same value as the old. As the new money worked its way into more general circulation, however, merchants in Manila and other cities of the Islands came more and more to allow a premium on the new currency, varying in amount up to the banks' purchasing rate for the same as a maximum. Later, when the bulk of the money in circulation came to be the new money, prices seem to have been quite generally transferred from the old currency to the new without any material alterations, and in that case local currency, when received at all, was received at a discount. It should be added, moreover, that, at the time this influence was making itself felt in the direction of an advance in prices and wages, the general tendency of local prices appears to have been downward.

Any discussion concerning the establishment of the new currency would be incomplete that did not make mention of the valuable assistance rendered the Philippine government from the beginning by the War Department and the Treasury Department at Washington, speaking of which Vice-Governor Henry C. Ide said in his last Annual Report as Secretary of Finance and Justice: "The Treasury Department of the United States has in every way cooperated with the work to be accomplished, not only by facilitating the transfer of funds from the Insular depositories in the United States to the Insular depositories in the Philippine Islands and the reverse, but likewise by a most prompt and efficient aid in the mintage of the new coins and in the work of engraving and printing the silver certificates. . . . In all steps taken for the sale of certificates of indebtedness, for the purchase of silver for coinage, the arrangement of interest on the deposit of Gold Standard Funds in New York, looking after the details of coinage and shipment of coin, the efforts of Colonel Clarence R. Edwards, U.S.A., Chief of the Bureau of Insular Affairs, War Department, have been most constant, and his services have been of great value to the Insular Government."

The results accomplished may be briefly summarized as follows: From August 1, 1903, until April 1, 1905, there was a net exportation of local currency from the Islands amounting to approximately 26,000,000 pesos,[1] about 12,000,000 of which were commercial exportations, and 14,000,000 government shipments for the purpose of recoinage. The new currency, as previously stated, began to be placed in circulation the latter part of July, 1903. The circulation, as estimated by the Chief of the Division of the Currency at the end of each quarter since the passage of the Gold Standard Act, has been as follows:—

	Pesos.
December 31, 1903	3,910,000
March 31, 1904	7,402,000
June 30, 1904	9,057,000
September 30, 1904	14,254,000
December 31, 1904	20,765,524
March 31, 1905	27,045,000[2]

By April 1, local currency had been practically eliminated from circulation, and the Islands were firmly established upon a gold basis. In other words, with the exception of the United States currency in circulation, the entire currency of the country was transformed in a little over a year and a half's time, and that without serious derangement of business and with no greater disturbance to prices than frequently occurred under the pre-existing silver standard as the result of fluctuations in the price of silver.

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[1] From January 1, 1903, to August 1, 1903, there was a net commercial exportation of about 11,400,000 pesos. The first shipment of local currency by the government for recoinage was made in November, 1903.

[2] The note issue of the Banco Español Filipino, amounting to between a million and a half and two million pesos, was during the same period transferred to a Philippine currency basis.

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